Mossberg's Investor Digest
Best Idea Profile

DG FastChannel (Nasdaq: DGIT)

DESCRIPTION:

Headquartered in Irving, TX, DG FastChannel electronically delivers advertisements, syndicated programs, and other video news releases to traditional broadcasters and other media outlets. Its proprietary distribution network has two network operating centers (in Irving and Atlanta) and allows more than 5,000 advertisers, advertising agencies and content owners to send video, audio, image and data content to more than 21,000 radio, television, cable, network and print publishing destinations in the United States and Canada.

KEY INVESTMENT CONSIDERATION:

Less economically sensitive – Since DG FastChannel is paid to deliver the advertisement, its revenue stream is less affected by a decline in advertising rates. Even though ad rates are likely to decline, the ads still have to be delivered.

Near-Monopoly position in the digital distribution of advertisements – Over the past five years, the company has made 8 acquisitions, eliminating competition and creating a near-monopoly position. The company boasts the only network of its kind in North America that has nearly 100% penetration into TV, cable, radio, print and online outlets. According to management, inside of the company's network, there is $36 billion worth of media spending. With this market position, the company enjoys considerable pricing power.

Migration to HD advertising creates hockey stick growth opportunity – By this point, most everyone has heard of the switch from analog to digital television. It was scheduled to happen earlier this month, but was delayed by Congress until June. Along with the conversion to digital, advertisers are quickly taking up HD as a platform to deliver advertising. DG FastChannel has already seen significant growth in this area and this secular trend should drive growth for the company for the next several years. HD revenue grew from $1.6 million in 2006, to $34 million 2008, and a projected $55 million by 2009. In the next five years this could be a $300 million business for DG FastChannel, twice current run rate of the company. It's also important to understand the margin for delivering HD ads is much higher…70% versus approximately the 60% DGIT earns on its standard deliveries.

Strong Insider Ownership – About 1/3 of the company is owned by insiders and the CEO is the largest holder (owns 11%).

RISK:

It is possible that a competing technology could provide an attractive substitute for the company's proprietary distribution network. Given that the company is carrying $156 million in net debt, a drop in revenue and/or cash flows created by a competitive technology could make it difficult for the company to refinance or repay its debt.

VALUATION:

Pro forma EBITDA (including the contribution form two recent acquisitions) was $68 million during 2008, which yields and an attractive EV/ EBITDA multiple of about 7x. The company has made significant improvements in profitability, integrating its acquired businesses and increasing EBITDA margin by more than 10 percentage points in the past two years. It appears the EBITDA margin, which was approximately 38% during 2008, has more room to grow. This business is very leverageable. Once the company covers the fixed cost of the network, a significantly higher portion of each incremental dollar in sales drops through to the bottom line. With the pending hockey stick growth of more profitable HD related revenue, the company is poised for significant revenue and margin expansion. Applying a 40% EBITDA Margin to a $300 million revenue opportunity and using the current multiple, yields a stock price of $40.

(NYSE: DGIT)
Investment Data (as of 2/20/09)

Recent Price	**$15.84**
52-Week Range	11.66 - 24.40
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	20.8 MM
Average Trading Volume (3 mos)	180,000
Market Capitalization	**329 MM**
Cash	17 MM
Long Term Debt	173 MM
Enterprise Value (EV)	485 MM
LT Debt/ Equity	0.9
BV/ Share	12.95
TTM Revenue (pro forma)	187 MM
P/ Revenue	**1.8x**
TTM EPS (non-GAAP)	0.79
P/ EPS	**20.1x**
TTM EBITDA (pro forma)	68 MM
EV/ TTM EBITDA	**7.1x**